0000131337

NEW APPLICATION

ORIGINAL

SKADDEN, ARPS, SLATE, MEAGHER & FLOM
(ILLINOIS)

RECEIVED

333 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60606-1285

TEL: (312) 407-0700
FAX: (312) 407-0411
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DIRECT DIAL
(312) 407-0705
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(312) 407-8653
EMAIL ADDRESS
CLINDGRE@SKADDEN.COM

April 26, 2000

By Federal Express

Arizona Corporation Commission
Docket Control Center
1200 West Washington Street
Phoenix, AZ 85007-2996

DOCKET NO. T-03871A-00-0277

Re: Application for License to Provide Facilities Based Basic Local Exchange Telecommunications Service

Dear Sir or Madam:

On behalf of Allied Riser Communications of Arizona, Inc., enclosed for filing is an original and 10 copies of the above-referenced application.

Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self - addressed envelope provided for that purpose. Please do not hesitate to contact Kirk L. Peterson at (312) 407-0821 with any questions.

Very truly yours,

Cynthia B. Lindgren

Cynthia B. Lindgren
Senior Legal Assistant

NEW APPLICATION

ORIGINAL

RECEIVED

BEFORE THE
ARIZONA CORPORATION COMMISSION

ALLIED RISER OF ARIZONA, INC.	)	
	)	DOCKET NO. T-03871A-00-0277
In the Matter of the Application of Allied	)	Docket No. ____________
Riser of Arizona, Inc., for a License	)	
to Provide Facilities Based Basic	)	
Local Exchange Telecommunications	)	
Service throughout the State of Arizona	)	

APPLICATION OF ALLIED RISER OF ARIZONA, INC.

Allied Riser of Arizona, Inc. ("Allied Riser" or "Applicant"), by its undersigned counsel and pursuant to R14-2-1105 of the Arizona Administrative Code ("AAC"), hereby applies for a Certificate of Convenience and Necessity ("CCN") to provide competitive telecommunications service throughout the State of Arizona.

Allied Riser's application seeking entry into the Arizona local exchange market is in the public interest because it will provide Arizona consumers with an enhanced range of telecommunications services, will increase customer choice, will encourage carriers to provide more efficient and personalized service at lower prices, will provide users with greater reliability, and will create competitive pressure on carriers to provide more responsive customer service. Allied Riser respectfully submits its entry will bolster competition for the provision of local telecommunications services, which is essential to the state's continued economic health and well-being.

Approval of this Application will further the purposes of the Arizona Corporation Commission, which specifically authorizes basic local exchange service competition. Therefore, Applicant respectfully requests that the Commission grant it a license to provide facilities-based basic local telecommunications services as described herein. In support of its Application, Allied Riser provides the following information:

I. NAME AND ADDRESS OF APPLICANT

Applicant's address is:

Allied Riser of Arizona, Inc.
1700 Pacific Avenue, Suite 400
Dallas, TX 75201
Attn: Ried R. Zulager
(214) 560-4111
(214) 210-3009 (fax)

Correspondence concerning this Application should be directed to:

Kirk L. Peterson, Esq.
Skadden, Arps. Slate, Meagher & Flom (Illinois)
333 W. Wacker Drive, Suite 2300
Chicago, IL 60606
(312) 407-0821 (Tel.)
(312) 407-0411 (Fax)

II. ALLIED RISER FULLY MEETS THE REQUIREMENTS OF TITLE 14 CHAPTER 2 ARTICLE 11 OF THE ARIZONA ADMINISTRATIVE CODE FOR A CERTIFICATI OF CONVENIENCE AND NECESSITY TO PROVIDE BASIC LOCAL EXCHANGE SERVICE.

R14-2-11)5A of the AAC requires that an application for a CCN to provide competitive telecommur ications services shall include (1) a description of the Applicant's technical ability to provide the services and a description of their facilities; (2) documentation of the company's current financial condition; (3) a copy of the company's formation documents; and (4) the information required by R14-2-1104A. R14-2-1104A requires that an applicant for a CCN provide the Commission with (1) a description of the company and the services it intends to offer; (2) the name, intrastate address and a list of the officers and directors of the company; (3) a tariff;

(4) a description of the geographic market to be served; (5) appropriate city, county and/or State agency approvals; and (6) such other information as the Commission or its Staff requests. Rule 14-2-1108 allows the Commission to deny a CCN to an applicant who (1) fails to provide the information required by this Article; (2) is not offering competitive services; (3) does not possess technical competency to provide the proposed services; or (5) fails to provide a required performance bond. As explained in further detail below, Allied Riser fully meets the requirements of R14-2-1105.

In addition, Allied Riser is filing with this Application the testimony of Mr. Todd C. Doshier, its Vice President and Chief Financial Officer of Allied Riser Operations Corporation, and certain exhibits referenced in Mr. Doshier's testimony, including an illustrative tariff for its services. Please note that, with respect to the illustrative tariff, many details of Allied Riser's provision of local exchange services, including the rates to be charged to Allied Riser's customers, will be dependent upon the negotiation of interconnection agreements with the incumbent local exchange carriers. Upon certification of Allied Riser, completion of negotiations with the incumbent local exchange carriers, and prior to commencing service, Allied Riser will file final tariffs that comply with all Commission rules and regulations and list the rates, terms and conditions of service. Furthermore, Allied Riser will provide the additional service offerings required by Arizona Law and Commission decisions, and acknowledges that it will be subject to the regulatory requirements imposed on other licensees.

A. Description or identification of geographic area for which the license is sought.

Applicant is currently seeking certification to provide connectivity from the point of interconnection, across the rights-of-way, to the ARC Network operated by Allied Riser Operations

Corporation, an affiliate of Applicant that provides enhanced Internet, video and data service to customers in multi-tenant office buildings. Applicant will offer this connectivity where practical to any service provider who wishes to serve these buildings. Eventually Applicant hopes to provide facilities-based and resold switched and dedicated local exchange service to customers throughout the state and is seeking authorization in this proceeding to do so.

Pursuant to this Application, Allied Riser seeks authority to provide basic local exchange service throughout the State of Arizona. As discussed above, upon certification of Allied Riser, and prior to commencing service, Allied Riser will file tariffs that comply with all Commission rules and regulations and list the rates, terms and conditions of each service.

B. Description of the applicant's general financial, technical and managerial resources.

1. Background Corporate Information

Applicant is a Delaware corporation, is a wholly owned subsidiary of Allied Riser Communications Corporation and is qualified to do business as a foreign corporation in the State of Arizona. Copies of Applicant's Articles of Incorporation and Certificate to transact business in Arizona are attached as exhibits to Mr. Doshier's testimony.

The officers and directors of Applicant are as follows:

Officers	Michael R. Carper	President
	Todd C. Doshier	Vice President
	Charles W. Yeargain	Vice President and Treasurer
	Ried Zulager	Secretary
Directors:	Michael R. Carper	
	Todd C. Doshier	
	Charles W. Yeargain	

The officers and directors of Applicant can be reached at:

1700 Pacific Ave., Suite 400
Dallas, TX 75201
(214) 210-3000 (Tel.)
(214) 210-3001 (Fax)

2. Managerial and Technical Qualifications

Allied Riser possesses the managerial and technical qualifications to provide local exchange service in Arizona. Applicant possesses the managerial qualifications to provide its proposed local exchange telecommunications services. Descriptions of the telecommunications and managerial experience of key personnel of Applicant and of Applicant's affiliate, Allied Riser Operations Corporation--who have extensive management, financial, and technical experience--are attached to Mr. Doshier's testimony. Each member of Allied Riser's management team will draw upon his or her own experience, as well as the collective experience of the entire management team, to ensure that Allied Riser is managed and operated efficiently and profitably.

Applicant is technically qualified to provide the proposed local exchange services in the State of Arizona. Allied Riser's corporate affiliates are authorized to provide local exchange services in California, Colorado, Connecticut, the District of Columbia, Illinois, Massachusetts, New York, Ohio, Pennsylvania, Texas, Virginia and Washington. Other affiliates currently are in the process of obtaining approval to provide local exchange services from the regulatory authorities in Florida, Georgia, Louisiana, Minnesota, Nevada, New Jersey, Oklahoma, and Tennessee. Our affiliate Allied Riser Operations Corporation currently provides Internet access, business television, remote access, web hosting, and a variety of other broadband and enhanced telecommunications services in thirteen states. Applicant will draw upon the technical expertise of its affiliates in its provisioning of service.

3. Financial Qualifications

Allied Riser is financially qualified to provide local telecommunications services for which authority is requested in Arizona. Applicant possesses the financial qualifications required of applicants for the license requested herein. Applicant will rely on its parent corporation, Allied Riser Communications Corporation, for initial financing and capital necessary to conducts its telecommunications operations as specified in this Application. Attached to Mr. Doshier's testimony are the most recent audited financial statements for Allied Riser Communications Corporation which demonstrate that it possesses the sound financial support necessary to competently and effectively provide the services for which authority is requested by this Application. The information provided demonstrates that Allied Riser fully meets the financial requirements for a basic local exchange service license in Arizona.

C. Applicant's technical, financial and managerial resources and abilities to provide basic local exchange service to every person within the geographic area of the license.

Applicant has demonstrated in Section II above that it possesses the requisite technical, financial and managerial resources and abilities to provide all forms of resold and facilities-based basic local exchange service and will be able to provide such service within the geographic area of the license. As indicated, Allied Riser has extensive experience in providing competitive telecommunications services and has demonstrated its ability to provide high-quality, reliable and reasonably-priced services.

Allied Riser requests authority to provide all forms of resold and facilities-based local exchange telecommunications services in Arizona, including (1) Basic Residential Exchange Services (Local Exchange Flat Rate, Measured Rate Service, operator access, etc.); (2) Basic

Business Exchange Services; (3) Business and Residential Ancillary Services (911, directory listing, directory assistance, etc.); (4) Telecommunications Relay services for communications to and from persons using TDD equipment; and (5) support Lifeline other similar assistance programs.

Attached as an exhibit to Mr. Doshier's testimony, is an illustrative local exchange tariff setting forth descriptions, terms, and conditions for Allied Riser's proposed services. As stated herein, Allied Riser's prices will depend significantly upon its costs, including in particular its costs of completing calls through the existing networks of incumbent local exchange carriers, which will not be identified until after the conclusion of interconnection negotiations with these carriers. Therefore, the tariff submitted herein is for illustrative purposes only.

D. Discussion of the impact on the public interest.

Experience with competition in other telecommunications markets, such as long distance, competitive access, and customer premises equipment, demonstrates the benefits that competition can bring to consumers. Consumers are enjoying increased services, decreased costs, higher quality, and greater reliability. This is true not only with respect to the service offerings of the new entrants, but also as a result of the response of incumbent monopoly providers to the introduction of competition.

Allied Riser's proposed services will provide multiple public benefits by increasing the efficiency of incumbent LECs by providing users of telecommunications services with greater reliability and by increasing the competitive choices available to users in the state. Enhanced competition in telecommunications services likely will further stimulate economic development in Arizona. In addition, increased competition will create incentives for lower prices, more innovative services, and more responsive customer service.

The Federal Communications Commission has found ample evidence that the competitive provision of interstate services furthers the public interest. "Competition in the interexchange and CPE markets has brought consumers increased service options, reduced rates, and faster implementation of new technologies."[1]

Furthermore, the grant of a certificate will not adversely affect the incumbent local exchange carriers' service. As has been the case with other competitive initiatives in Arizona, a grant of the instant authority will have minimal impact on the incumbents. In fact, incumbent providers have benefitted from market incentives to improve the efficiency of their operations and from increased usage of their services due to expansion of the total market spurred by competition and lower prices.

Further, as demonstrated above, the grant of this authority will provide significant benefits to consumers in terms of carrier choice, price, increased reliability, responsiveness, and the introduction of new services. Additionally, as competition has driven telecommunications prices downward, businesses have seen concomitant reductions in their operating costs and increases in their sales, which have contributed toward the viability of the economy and employment levels.

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[1] *Expanded Interconnection With Local Telephone Company Facilities*, CC Docket No. 91-141, Report and Order and Notice of Proposed Rulemaking, FCC 92-440, 7 FCC Rcd. 7369, paras. 13-14 (1992), *modified as to other issues*, 8 FCC Rcd. 127 (1992), *further modified*, FCC 930378 (released Sept. 2, 1993). See also id. at notes 32, 35.

CONCLUSION

Allied Riser of Arizona, Inc. respectfully requests that the Commission enter an Order granting it a certificate of public convenience and necessity to operate as a competitive telecommunications company which will allow it to provide resold and facilities-based basic local exchange services throughout the State of Arizona. For the reasons stated above, Allied Riser's provision of these services would promote the public interest by providing high-quality service at competitive prices, and by creating greater economic incentives for the development and improvement for all competing providers. A grant of Allied Riser's Application will bring significant benefits to telecommunications users in the State of Arizona.

Respectfully submitted,

ALLIED RISER OF ARIZONA, INC.

By: [signature]
Name: Ried R. Zulauger
Title: Corporate Secretary

Date: 17 April 2000

EXHIBITS

EXHIBIT 1	Certificate of Authority to Transact Business in Arizona
EXHIBIT 2	Financial Qualifications
EXHIBIT 3	Managerial Qualifications
EXHIBIT 4	Illustrative Local Exchange Tariff

EXHIBIT 1

Certificate of Authority to Transact Business in Arizona

ARIZONA CORPORATION COMMISSION

CSC
3636 N CENTRAL AVE
PHOENIX, AZ 85012

RE: ALLIED RISER OF ARIZONA, INC.
File Number: F-0889328-2

We are pleased to notify you that your Application for Authority to transact business in Arizona was approved and filed on September 28, 1999.

You must publish a copy of your Application for Authority. The publication must be in a newspaper of general circulation in the county of the known place of business in Arizona, for three (3) consecutive publications. An affidavit from the newspaper, evidencing such publication, must be delivered to the Commission for filing WITHIN NINETY (90) DAYS from the File Date.

All corporations transacting business in Arizona are required to file an Annual Report with the Commission, on the anniversary of the date of incorporation. Each year, a preprinted Annual Report Form will be mailed to you prior to the due date of the report.

If you have any questions or need further information, please contact us at (602) 542-3135 in Phoenix, (520) 628-6560 in Tucson, or Toll Free (Arizona residents only) at 1-800-345-5819.

Very truly yours,

MARGARITA WRIGHT
Examiner
Corporations Division
Arizona Corporation Commission

CF:07
Rev: 4/97

EXPEDITED
AZ CORP. COMMISSION
DELIVERED

SEP 28 1999

FILED BY Margarita Wright
TERM
DATE 09/28/99
F-0889328-2

APPLICATION FOR AUTHORITY TO TRANSACT BUSINESS IN ARIZONA

DO NOT PUBLISH THIS SECTION

1. The corporate name must contain a corporate ending which may be "corporation," "association," "company," "limited," "incorporated" or an abbreviation of any of these words. If you are the holder or assignee of a tradename or trademark, attach Declaration of Tradename Holder form. If your name is not available for use in Arizona, you must adopt a fictitious name and provide a resolution adopting the name, which must be executed by the corporation Secretary.

The name of the corporation is: ALLIED RISER OF ARIZONA, INC.

A(n) DELAWARE Corporation
(State, Province or Country)

X We are a foreign corporation applying for authority to transact business in the state of Arizona.

___ We are a foreign corporation currently authorized to transact business in Arizona and must now file this Application for New Authority pursuant to A.R.S. § 10-1504 because we have changed the following in our domicile jurisdiction:

- ☐ Our actual corporate name (or the name under which we originally obtained authority in Arizona).
- ☐ The period of our duration.
- ☐ The state, province or country of our incorporation.

1. The exact name of the foreign corporation is:

ALLIED RISER OF ARIZONA, INC.

If the exact name of the foreign corporation is not available for use in this state, then the fictitious name adopted for use by the corporation in Arizona is:

________________ (FN).

2. The name of the state, province or country in which the foreign corporation is incorporated is:

DELAWARE

3. The foreign corporation was incorporated on the 9TH day of SEPTEMBER 19 99 and the period of its duration is: PERPETUAL

3. You must provide the total duration in years for which your corporation was formed to endure. If perpetual succession, so indicate in this section. Do not leave blank, or state not applicable.

4. The street address of the principal office of the foreign corporation in the state, province or country of its incorporation is:

10[illegible]3 CENTRE ROAD
WILMINGTON, DE 19805

5. The name and street address of the statutory agent for the foreign corporation in Arizona is:

Corporation Service Company
3636 North Central Avenue
Phoenix, Arizona 85012

5. The statutory agent address cannot be a P.O. Box. It must be a physical address in Arizona. Include City, State and Zip code

DO NOT PUBLISH THIS SECTION	5.a. The street address of the known place of business of the foreign corporation in Arizona IF DIFFERENT from the street address of the statutory agent is:
5.b. Indicate to which address the Annual Report should be mailed.	5.b. The Annual Report and general correspondence should be mailed to the address specified above in section 4 X or 5a ____.
6. If the purpose of your corporation has any limitations with regard to this section, so indicate. If not, state no limitations.	6. The purpose of the corporation is to engage in any and all lawful business in which corporations may engage in the state, province or country under whose law the foreign corporation is incorporated, with the following limitations if any: None

7. The names and usual business addresses of the current directors and officers of the foreign corporation are: (Attach additional sheets if necessary.)

Name: See attached officers/directors rider [title]
Address:
City, State, Zip:
Name: [title]
Address:
City, State, Zip:
Name: [title]
Address:
City, State, Zip:

8. The total number of authorized shares cannot be "zero" or "N/A". Include authorized, not issued shares in this section.

8. The foreign corporation is authorized to issue 1,000 shares, itemized as follows: (Attach additional sheets if necessary.)

1,000 shares of common [class or series] stock at ____ no par value or par value of $ 0.01 per share.

____ shares of ____ [class or series] stock at ____ no par value or par value of $ ____ per share.

____ shares of ____ [class or series] stock at ____ no par value or par value of $ ____ per share.

DO NOT PUBLISH THIS SECTION

9. The total number of issued shares cannot be "N/A".

The Application must be accompanied by the following: A Certificate of Disclosure, executed within 30 days of delivery to the Commission, by a duly authorized officer

Attach a certified copy of your articles of incorporation, all amendments and mergers (AZ Const. Art. XIV, §8) and a certificate of existence or document of similar import duly authenticated (within 60 days) by the official having custody of corporate records in the state, province or country under whose laws we are incorporated.

The agent may consent to the appointment by either executing this consent, attaching a cover letter, or if paying by check, executing the check.

CF:0024
Rev. 4/98

9. The foreign corporation has issued 1,000 shares, itemized as follows:

1,000 shares of COMMON [class or series] stock at ______ no par value or par value of $ 0.01 per share.

______ shares of ______ [class or series] stock at ______ no par value or par value of $______ per share.

______ shares of ______ [class or series] stock at ______ no par value or par value of $______ per share.

10. The character of business the foreign corporation initially intends to conduct in Arizona is:

COMMUNICATIONS SERVICES

DATED this ______ day of SEPTEMBER, 1999.

ALLIED RISER OF ARIZONA, INC.

[Name of Corporation]

Executed by ______

RIED R. ZULKOWSKI, CORPORATE SECRETARY

[print name] [title]

PHONE ______ FAX ______

[optional] [optional]

ACCEPTANCE OF APPOINTMENT BY STATUTORY AGENT

The undersigned hereby acknowledges and accepts the appointment as statutory agent of this corporation effective this 27 day of SEPTEMBER, 1999.

Corporation Service Company

BY: Sylvia M. White

Signature

Sylvia M White

[Print Name] Authorized Representative

ALLIED RISER OF ARIZONA, INC.

OFFICERS AND DIRECTORS

Officers

Michael R. Carper	President
Todd C. Doshier	Vice President
Charles Yeargain	Vice President and Treasurer
Ried Zulager	Secretary

Directors

Michael R. Carper
Todd C. Doshier
Charles Yeargain

The Mailing address for all Officers and Directors is:

1700 Pacific Avenue, Suite 400
Dallas, TX 75201

Mar 16 2000 15:04 P.07

09/21/99 TUE 09:26 [TX/RX NO 8408]

ARIZONA CORPORATION COMMISSION
CORPORATIONS DIVISION

Phoenix Address: 1300 West Washington Phoenix, Arizona 85007-2929

Tucson Address: 400 West Congress Tucson, Arizona 85701-1347

PROFIT
CERTIFICATE OF DISCLOSURE
A.R.S.§10-202.D

ALLIED RISER OF ARIZONA, INC.
EXACT CORPORATE NAME

A. Has any person serving either by election or appointment as officer, director, trustee, incorporator and persons controlling or holding over 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation:

1. Been convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
2. Been convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses, or restraint of trade or monopoly in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
3. Been or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven-year period immediately preceding the execution of this Certificate, wherein such injunction, judgment, decree or permanent order:
   (a) Involved the violation of fraud or registration provisions of the securities laws of that jurisdiction?; or
   (b) Involved the violation of the consumer fraud laws of that jurisdiction?; or
   (c) Involved the violation of the antitrust or restraint of trade laws of that jurisdiction?

Yes ____ No X

B. IF YES, the following information MUST be attached:

1. Full name, prior name(s) and aliases, if used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7-year period).
5. Date and location of birth.
6. Social Security number.
7. The nature and description of each conviction or judicial action, date and location, the court and public agency involved and file or cause number of case.

C. Has any person serving as an officer, director, trustee or incorporator of the corporation served in any such capacity or held or controlled over 20% of the issued and outstanding common shares, or 20% of any other proprietary, beneficial or membership interest in any corporation which has been placed in bankruptcy, receivership or had its charter revoked, or administratively or judicially dissolved by any state or jurisdiction?

Yes ____ No X

IF YOUR ANSWER TO THE ABOVE QUESTION IS "YES", YOU MUST ATTACH THE FOLLOWING INFORMATION FOR EACH CORPORATION:

1. Name and address of the corporation.
2. Full name (including aliases) and address of each person involved.
3. State(s) in which the corporation:
   (a) Was incorporated. (b) Has transacted business.
4. Dates of corporate operation.
5. Date and case number of Bankruptcy or date of revocation/administrative dissolution.

D. The fiscal year end adopted by the corporation is 12/31

Under penalties of law, the undersigned incorporator(s)/officer(s) declare(s) that I(we) have examined this Certificate, including any attachments, and to the best of my(our) knowledge and belief it is true, correct and complete, and hereby declare as indicated above. THE SIGNATURE(S) MUST BE DATED WITHIN THIRTY (30) DAYS OF THE DELIVERY DATE.

BY ________________ BY [signature]

PRINT NAME CHARLES YEAMANS PRINT NAME REED ZULAGER

TITLE VICE PRESIDENT DATE 9/21/99 TITLE SECRETARY DATE 21/IX/99

DOMESTIC CORPORATIONS: ALL INCORPORATORS MUST SIGN THE INITIAL CERTIFICATE OF DISCLOSURE. If within sixty days, any person becomes an officer, director, trustee or person controlling or holding over 10% of the issued and outstanding shares or 10% of any other proprietary, beneficial or membership interest in the corporation and the person was not included in this disclosure, the corporation must file an AMENDED certificate signed by at least one duly authorized officer of the corporation.

FOREIGN CORPORATIONS: MUST BE SIGNED BY AT LEAST ONE DULY AUTHORIZED OFFICER OF THE CORPORATION.

CF 0022 - Business Corporations
Rev 2/98

EXHIBIT 2

Financial Qualifications

1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-15425

ALLIED RISER COMMUNICATIONS CORPORATION
(Exact name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	75-2789492 (I.R.S. Employer Identification No.)

1700 PACIFIC AVE
SUITE 400
DALLAS, TEXAS 75201-4679
(Address of Principal Executive Offices, Including Zip Code)

(214) 210-3000
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Securities Registered Pursuant to Section 12(g) of the Act: COMMON STOCK, $0 0001 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that it was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of February 29, 2000, the aggregate market value of voting stock based on the closing price of the registrant's common stock on the Nasdaq National Market on that date of $26.00 held by non-affiliates of the registrant was $1,478,155,00 .

As of February 29, 2000, the number of shares of common stock outstanding was 56,852,11 .

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders of the registrant to be held on or about June 15, 2000 are incorporated by reference into Part III of this report.

These provisions may have the effect of delaying, deferring or preventing a change in our control, impeding a merger, consolidation, takeover or other business combination, which in turn could preclude our stockholders from recognizing a premium over the prevailing market price of the common stock

Impairment of our intellectual property rights could harm our business. While we are seeking federal registration of ARC and certain other trademarks, we have not been awarded any trademark registrations, and are relying upon our common law rights. It is possible that other entities may challenge our registration and use of these trademarks based on a claim of superior rights, dilution or otherwise. Such challenges, if successful, could preclude us from registering and even using our trademarks, in which case the expense of developing new trademarks and resulting loss of product identification and goodwill could have a material adverse effect on our net income (loss) and our brand awareness.

ITEM 2. PROPERTIES

We are headquartered in facilities consisting of approximately 81,600 square feet in Dallas Texas, which we occupy under a lease that expires in December 2003. In addition, our engineering department occupies approximately 19,000 square feet in Richardson, Texas under a lease, which expires in December 2003 We also lease space under varying terms from 1 to 5 years in each of our metropolitan areas served for sales demonstration centers. We consider this space adequate for our current operations.

ITEM 3. LEGAL PROCEEDINGS:

We are not currently engaged in any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

The following matters were submitted to a vote of security holders during the fourth quarter of 1999:

On October 25, 1999, pursuant to a written Waiver and Consent, 117 shares representing 100% of the holders of our outstanding preferred stock, and 26,620,138 shares representing 80% of our common stock approved: (i) the issuance of registered securities in an initial public offering of our common stock, (ii) an increase to 5,000,000 shares in the number of shares of common stock issuable pursuant to our Amended and Restated 1999 Stock Option and Equity Incentive Plan, (iii) an amendment and restatement of our Certificate of Incorporation effecting certain changes as a result of a 1 to 15 reverse stock split of our common stock approved by the board of directors on September 18, 1999, and (iv) certain waivers and consents required of the Preferred Stockholders prior to our initial public offering as contemplated in certain agreements between us and our financial sponsors.

On November 3, 1999, the rights, powers, and designations of our preferred stock were removed from the Certificate of Incorporation. Pursuant to a written Consent of Stockholders, an amendment to our Certificate of Incorporation was approved whereby 27,769,178 shares representing 50.08% of our common stock voted in favor of the resolution. As provided in the Certificate of Incorporation, upon receipt of approval of a majority of the holders in such written consent, notice of such amendment with respect to the preferred stock was delivered to stockholders whose consent had not been previously sought.

PART II

ITEM 5 MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS:

MARKET INFORMATION

Our common stock is listed on the Nasdaq National Market. Our ticker symbol is "ARCC" We completed the initial public offering of our common stock in October 1999. Prior to October 29, 1999, no established public trading market for the common stock existed.

The following table sets forth on a per share basis, the high and low sale prices per share for our common stock as reported on the Nasdaq National Market for the periods indicated.

	HIGH	LOW
Year ended December 31, 1999		
Fourth quarter (from October 29, 1999)	$26 13	$15.12

A recent reported last sale price of our common stock on the Nasdaq National Market is set forth on the front cover of this report.

STOCKHOLDERS

There were approximately 291 owners of record of our common stock as of February 29, 2000. This number excludes stockholders whose stock is held in nominee or street name by brokers and we believe that we have a significantly larger number of beneficial holders of common stock.

DIVIDENDS

We have not paid any cash dividends on our common stock since inception and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects, and other factors our board of directors deems relevant. In addition, our current financing arrangements effectively prohibit us from paying cash dividends for the foreseeable future.

USE OF PROCEEDS FROM REGISTERED SECURITIES

On October 29, 1999, we completed our initial public offering of common stock. The effective date of our Registration Statement on Form S-1 (Commission File No. 333-85597) was October 28, 1999, pursuant to which we registered the offer and sale of 15,750,000 shares of common stock par value $.0001 per share, for an aggregate offering price of $283,500,000. We completed the offering, selling 16,970,550 shares of common stock for the aggregate offering price of $305,470,000, including the exercise by the underwriters of their over-allotment option to purchase an additional 1,220,550 shares of common stock at the offering price. The managing underwriters were Goldman, Sachs & Co., Merrill Lynch & Co., Donaldson Lufkin & Jenrette and Thomas Weisel Partners LLC.

We incurred expenses of approximately $20,578,000, of which approximately $18,328,000 represented underwriting discounts and commissions and approximately $2,250,000 represented other expenses related to the offering. In addition, the shares issued to GS Capital Partners III, L.P. were deemed to be underwriting compensation by the National Association of Securities Dealers, Inc. None of the expenses incurred was paid directly or indirectly to any director or officer of our company or their associates, persons owning 10% or more of any class of equity securities of our company, or an affiliate of our company. The net offering proceeds to our company after total expenses was approximately $284,892,000.

We have not used any of the net proceeds from the initial public offering. The net proceeds have been invested in cash, cash equivalents and short-term investments. We plan to use the proceeds for construction of in-building networks, for working capital and general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in complementary businesses, technologies, services or products. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in our Registration Statement on Form S-1.

STOCKHOLDER PROPOSALS FOR 2000 ANNUAL MEETING

Our first annual stockholders' meeting is scheduled for June 15, 2000. Proposals of stockholders intended for inclusion in the proxy statement to be furnished to all stockholders entitled to vote at the annual meeting must be received at our principal executive office no later than April 10, 2000. The deadline for providing timely notice of matters that stockholders otherwise desire to introduce at the annual meeting is April 10, 2000.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA:

The following selected consolidated statements of operations data for the period from inception (December 19, 1996) to December 31, 1997, and for the years ended December 31, 1998 and 1999, have been derived from our audited financial statements and the related notes. This data should be read in conjunction with the consolidated financial statements and the related notes thereto (see Part II, Item 8) and with "Management's Discussion and Analysis of Financial Conditions and Results of Operations" set forth in Part II Item 7 of this report.

	1997	1998	1999
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)		
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Network services revenue	$ --	$ 212	$ 1,870
Operating expenses:			
Network operations	80	2,358	7,682
Selling expense	--	1,623	9,296
General and administrative expenses	1,348	9,736	25,981
Depreciation and amortization	10	499	2,971
Amortization of deferred compensation	--	--	14,681
Amortization of real estate access rights	--	--	2,036
Total operating expenses	1,438	14,216	62,647
Operating income (loss)	(1,438)	(14,004)	(60,777)
Other income (expense)	(59)	(606)	3,289
Benefit (provision) for income taxes	--	--	--
Net income (loss)	(1,497)	(14,610)	(57,488)
Accrued dividends on preferred stock	--	(452)	(6,452)
Net income (loss) applicable to common stock	$ (1,497)	$ (15,062)	$ (63,940)
Net income (loss) per common share	$ (7.45)	$ (8.09)	$ (2.15)
Weighted average number of shares outstanding	201,000	1,862,000	29,736,000
CONSOLIDATED BALANCE SHEET DATA:			
Cash and cash equivalents	$ 188	$ 41,371	$ 152,564
Short-term investments	--	--	162,013
Property and equipment, net	1,250	13,005	46,577
Total assets	1,487	55,572	475,054
Total liabilities	3,228	5,257	22,640
Convertible redeemable preferred stock	--	66,452	--
Additional paid-in capital	163	375	434,930
Warrants	--	--	109,135
Stockholders' equity (deficit)	(1,741)	(16,137)	452,414

As used in the table below, EBITDA consists of net loss excluding net interest, income taxes, depreciation and amortization. EBITDA does not reflect our non-cash expenses, which we expect will increase considerably as we deploy our infrastructure. We believe that because EBITDA is a measure of financial performance that it is useful to investors as an indicator of a company's ability to fund its operations and to service or incur debt. EBITDA is not a measure calculated under generally accepted accounting principles. Other companies may calculate EBITDA differently from us. It is not an alternative to operating income as an indicator of our operating performance or an alternative to cash flows from operating activities as a measure of liquidity and investors should consider these measures as well. We do not expect to generate positive EBITDA in the near term. We anticipate that our discretionary use of EBITDA, if any, generated from our operations in the foreseeable future will be restricted by our need to build our infrastructure and expand our business. To the extent that EBITDA is available for these purposes, our requirements for outside financing will be reduced.

The last three line items of other operating data below reflect data as of the last day of each period and do not include our work-in-progress or under contract as of those dates.

	1997	1998	1999
	(DOLLARS IN THOUSANDS)		
OTHER OPERATING DATA			
Net cash provided by (used in) operating activities	$(1,229)	$ (14,420)	$ (39,152)
Net cash provided by (used in) investing activities	$(1,088)	$ (8,115)	$ (191,908)
Net cash provided by financing activities	$ 3,504	$ 63,718	$ 332,253
EBITDA	$(1,401)	$ (13,504)	$ (41,095)
Capital expenditures	$ 1,220	$ 12,032	$ 36,543
Metropolitan markets served	--	2	$ 22
Buildings constructed	--	4	$ 120
Rentable square feet in buildings constructed	--	2,900,000	80,000,000

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

OVERVIEW

Since our inception in December 1996, our principal activities have included developing our business plan, raising capital, hiring management and other key personnel, designing and developing our fiber-optic networks inside buildings, acquiring equipment and facilities, entering into agreements with building owners and real estate managers and beginning the deployment of our fiber-optic networks. In June 1997, we began installing our networks, and we began operating our first in-building network in January 1998. On October 29, 1999, we completed an initial public offering of 15,970,550 shares of our common stock for which we received net proceeds of approximately $265,000,000. We provide services in 22 metropolitan areas. As of December 31, 1999, we have constructed fiber-optic networks inside 120 office buildings with more than 80 million rentable square feet. Today, we have entered into agreements to install and operate our fiber-optic networks in more than 1,250 office buildings with more than 420 million rentable square feet.

To rapidly establish a strong position in the markets we target, we are heavily investing in our fiber-optic networks. We incur costs in the design and installation of our in-building infrastructure, which is typically installed within a secure conduit located in the building's riser, which is the building's vertical utility shaft. We also invest in electronic equipment that is needed to connect our networks to the Internet. We expect to incur significant additional costs building and refining our operational support systems; this includes the purchase and implementation of software to facilitate customer acquisition, billing, collections, and network management.

As a result of our development activities and the deployment of our networks, from inception to date we have incurred significant operating losses, net losses, and negative EBITDA. We expect that the continued expansion of our operations will result in increasing operating losses, net losses, and negative EBITDA. As a result of our limited operating history, prospective investors have limited operating and financial data upon which to base an evaluation of our performance and an investment in our common stock.

FACTORS AFFECTING FUTURE OPERATIONS

Network services revenue. We generate revenue from selling broadband data, video and voice services primarily to tenants in buildings in which we own and operate our fiber-optic networks. We generally enter into long-term, non-exclusive contracts with the owners and managers of portfolios of office buildings to permit us to construct and operate these networks within their buildings. In return for the right to deploy and maintain our networks, building owners receive a modest portion of the gross revenue we generate from tenants inside their buildings. Upon completion of an in-building network, our direct sales personnel market our services to the tenants of the building. Once a customer orders our services, we generally initiate service within one to ten business days. Our customers are not generally required to purchase or maintain any equipment beyond their existing local area network.

We currently offer:

- ultra high-speed Internet access;
- business-oriented television for display on the computer desktop;
- network design and management;

enhanced conference calling services, and

other broadband data services.

We generate the majority of our recurring revenue from subscription fees, which vary depending upon a number of factors, including the services provided, the number of desktops connected to our network and bandwidth usage volume. We generally offer services on a month-to-month contractual basis. We do not require our customers to purchase any equipment from us. We price our combination of services competitively compared to existing providers of Internet connectivity and broadband data services, such as local telephone companies and Internet service providers. Although competitive pricing is an important part of our strategy, we believe that the speed and performance of our fiber-optic networks, combined with a high level of customer care, are the keys to successfully attracting and retaining small and medium-sized business customers.

We expect that in the short term the majority of our revenue will be derived from our Internet connectivity services. We intend to take advantage of our presence in buildings in which we operate a network and our customer relationships to market additional services to our customers. We expect these services to include bandwidth-enabled services, such as enhanced Internet voice services; full-motion, interactive, desktop-delivered video conferencing; direct access to both on-line content and business applications through industry specific portals, e-commerce and network design and management services. We also intend to take advantage of our growing market presence and brand by offering similar broadband services to our customers' branch offices and other businesses located in buildings in which we have not installed our fiber-optic networks. We believe that these additional services may generate significant incremental revenue.

Network operations. Our network operations expenses include payments to providers of transmission capacity, costs associated with customer connections to our in-building fiber-optic networks, customer care, equipment maintenance, payments to building owners, and content licensing costs. In order to provide our services, we must connect each in-building network to a metropolitan hub via a local network and each metropolitan hub to a national network. These local and national networks are owned by unaffiliated parties. We have contracts with terms ranging from one month to five years for connections to these networks. Under these agreements, we incur fixed monthly charges for local connectivity. For national connectivity, we incur fixed monthly charges plus incremental charges based upon customer usage. In addition, if we fail to meet our minimum volume commitments for national connectivity, we may be obligated to pay penalties. In the future, we may contract for volume discounts based on the volume purchased from national connectivity providers. In the event we underestimate our need for transmission capacity, we may be required to obtain capacity through more expensive means. We expect that our connectivity costs will increase as we enter new markets and provide services for new customers. In addition, we pay usage-based calling fees in connection with our enhanced conference calling services.

We incur expenses related to ongoing operations for customer support. We provide customer care through our Dallas-based customer care center, which is augmented by field support personnel and contracts with outside support providers for on-site customer service. Because our strategy emphasizes the importance of customer care, we expect that initially customer service will become a larger part of our ongoing expenses. Equipment maintenance costs include expenses for equipment repair and periodic servicing. Maintenance services are provided by our field operations personnel, third-party contractors and equipment vendors. In exchange for access rights from building owners, we pay building owners a modest portion of the revenue that we generate from tenants inside their buildings. The fee we pay building owners varies proportionally with revenues generated in the respective buildings. We incur both fixed and variable costs in connection with licenses related to the provisioning of enhanced communications services, such as business-oriented desktop television.

Selling expense. Selling expense includes costs of employee salaries and commissions, marketing, advertising and promotional expenses and costs associated with leasing and operating sales demonstration centers. To attract and retain a qualified sales force, we offer our sales personnel a compensation package emphasizing commissions and stock options. We expect to incur significant selling and marketing costs as we continue to expand our sales force and penetrate our targeted markets.

General and administrative expenses. General and administrative expenses include costs associated with corporate administration and infrastructure, billing and personnel. We are currently in the process of building and refining our new operational support systems. These systems are necessary to enter, schedule, provision and track a customer order from the point of sale to installation, testing, and service initiation. In addition, these systems will interface with our billing, collection and customer care service systems. We believe that because most of our services are currently billed on a flat-rate basis, the cost and complexity of generating and reconciling our billings is less than that with usage-based pricing models. However, as we add customers and provide more services that require usage-based billing, such as our enhanced conference calling services, we expect that billing costs will increase. Accordingly, customer billing is expected to be a significant part of our ongoing administrative expenses. We have selected a group of vendors to provide automated billing systems and other operational support systems that will either replace or be integrated with our existing systems. See "Risk Factors - Our business will be harmed if our billing, customer service and information support systems are not successfully replaced or further developed."

We expect that costs will increase significantly as we expand our operations and that general and administrative expenses will be a larger portion of these costs during the early stages of our business. However, we expect that our general and administrative expenses will represent a smaller percentage of our revenue as we build our customer base.

Depreciation and amortization. Depreciation and amortization expenses include depreciation of system infrastructure, system equipment, furniture and fixtures and the amortization of leasehold improvements. We expect depreciation and amortization expenses to increase significantly as we install our fiber-optic networks in more buildings. While construction is in progress and we have outstanding debt, we capitalize related interest and we amortize the related capitalized interest over the useful life of the constructed assets.

Amortization of deferred compensation. Amortization of deferred compensation is a result of granting stock options and issuing restricted shares to our employees with exercise prices per share treated for accounting purposes as below the fair value of our common stock at the dates of grant. We are amortizing the deferred compensation over the vesting period of the applicable option and the lapsing of the restrictions on the applicable shares.

Amortization of real estate access rights. Amortization of real estate access rights is a result of the warrants we issued to our real estate partners. We expect that we will make similar issuances in the future. The warrant acquisition agreements impose certain performance requirements on the real estate partners for exercisability and retention of the shares underlying the warrants. The measurement date for valuing the warrants is the date(s) on which the real estate partners effectively complete their performance requirements. At the measurement date the company measures the fair value of the warrants based on the fair value of the underlying common stock. The fair value of the warrants is capitalized and amortized over the term of our agreements with our real estate partners.

Other income (expense). Other income (expense) consists primarily of net interest income and expense. We expect interest income to increase over the short term as a result of receiving the proceeds of our initial public offering in October 1999.

Provision for income taxes. Provision for income taxes consists of federal, state and local taxes, when applicable. We have not generated any taxable income to date and therefore have not paid or provided for any federal income taxes since inception. A full valuation allowance has been recorded on the deferred tax asset, consisting primarily of start-up costs and net operating loss carry forwards, because of the uncertainty of future operating results. We expect to generate significant net losses for the foreseeable future which should generate net operating loss carryforwards.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999, COMPARED TO YEAR ENDED DECEMBER 31, 1998

Network services revenue. Network services revenue for the year ended December 31, 1999, increased to $1,870,000 as compared to $212,000 for the year ended December 31, 1998. The increase in revenues is attributable to growth in the number of customers resulting from increased sales and marketing efforts concentrated in our networked properties and the increased penetration of our fiber-optic network into new buildings. As of December 31, 1999, our fiber-optic network was installed inside 120 buildings with more than 80 million rentable square feet as compared to December 31, 1998, when our networks were installed inside 4 buildings, with 2.9 million rentable square feet.

Network operations. Network operations expenses were $7,682,000 for the year ended December 31, 1999, and $2,358,000 for the year ended December 31, 1998. This increase is consistent with the expansion of our fiber-optic network and resulting increase in related costs.

Selling expense. Selling expense increased from $1,623,000 for the year ended December 31, 1998, to $9,296,000 for the year ended December 31, 1999. This increase was attributable to the continued expansion of sales and marketing efforts, including commissions, development of corporate identification, establishment of sales demonstration centers, promotional and advertising materials and hiring sales personnel.

General and administrative expenses. General and administrative expenses were $25,981,000 for the year ended December 31, 1999, and $9,736,000 for the year ended to December 31, 1998. This increase is consistent with our development activities and is attributable to growth in number of employees we incurred in connection with building our operating infrastructure. Our number of general and administrative employees increased to 283 as of December 31, 1999, as compared to 85 at December 31, 1998.

Depreciation and amortization. Depreciation and amortization for the year ended December 31, 1999 was $2,971,000 as compared to $499,000 for the year ended December 31, 1998. This increase was primarily due to the increase in system infrastructure and system equipment placed in service.

Amortization of deferred compensation. Amortization of deferred compensation was $14,68[illegible],000 for the year ended December 31, 1999.

Amortization of real estate access rights. Amortization of real estate access rights was $2,036,000 for the year ended December 31, 1999.

Other income (expense). Other income (expense) was $3,289,000 for the year ended December 31, 1999, and $(606,000) for the year ended December 31, 1998. This change in other income (expense) is primarily due to an increase in interest income generated by the proceeds of our equity transactions

Provision for income taxes. For the years ended December 31, 1999 and 1998, no provision for taxes was recognized as we operated at a loss throughout both years.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO PERIOD FROM INCEPTION (DECEMBER 19, 1996) TO DECEMBER 31, 1997

Network services revenue. Network services revenue for the year ended December 31, 1998 was $212,000. Our first fiber-optic network began operation in January 1998. Accordingly, no revenue was recognized for the period from inception to December 31, 1997. As of December 31, 1998, our fiber-optic network was installed in 4 buildings, with more than 2.9 million rentable square feet

Network operations. Network operations expenses were $2,358,000 for the year ended December 31, 1998 and $80,000 for the period from inception to December 31, 1997. This increase is consistent with the expansion of our fiber-optic network and resulting increase in related costs.

Selling expense. Our selling expense for the year ended December 31, 1998 was $1,623,000. This expense was attributable to the initial deployment of our fiber-optic network and the related sales and marketing efforts, including development of our brand and logo, establishment of sales demonstration centers, promotional and advertising materials and hiring sales personnel. Consistent with the initial deployment of our network in January 1998, we had no selling expense in the period from inception to December 31, 1997.

General and administrative expenses. General and administrative expenses were $9,736,000 for the year ended December 31, 1998 and $1,348,000 for the period from inception to December 31, 1997. This increase is consistent with our development activities and is attributable to growth in number of employees we incurred in connection with building our operating infrastructure. Our number of general and administrative employees increased to 85 as of December 31, 1998 as compared to 13 at December 31, 1997.

Depreciation and amortization. Depreciation and amortization for the year ended December 31, 1998 was $499,000 as compared to $10,000 for the corresponding period of the prior year. This increase was attributable to the deployment of our system infrastructure and system equipment which commenced in January 1998.

Other income (expense). Other income (expense) was $(606,000) for the year ended December 31, 1998 and $(59,000) for the period from inception to December 31, 1997. The change in other income (expense) is primarily due to an increase in interest expense as a result of increased borrowings throughout 1998.

Provision for income taxes. For the year ended December 31, 1998 and the period from inception to December 31, 1997 no provision for taxes was recognized as we operated at a loss throughout both periods.

QUARTERLY FINANCIAL INFORMATION

The following table sets forth certain quarterly statement of operations data for each full fiscal quarter within the two most recent fiscal years. This information has been derived from our unaudited financial statements. In the opinion of management, this unaudited information has been prepared on the same basis as the annual financial statements and includes all adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the information for the quarters presented. This information should be read in conjunction with the financial statements and related notes included elsewhere this document. The operating results for any quarter are not necessarily indicative of results for any future period.

	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MAR. 31, 1999	JUNE 30 1999	SEPT. 30, 1999	DEC. 31 1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
Network services revenues	$ 6	$ 43	$ 77	$ 168	$ 188	$ 601	$ 442	$ 881
Operating income (loss)	(1,498)	(2,680)	(4,319)	(5,627)	(5,[illegible])	(14,[illegible])	(16,162)	(26,284)
Net income (loss)	(1,559)	(2,823)	(4,672)	(5,756)	(5,[illegible])	(14,[illegible])	(16,630)	(21,496)
Net income (loss) applicable to common stock	$ (1,559)	$ (2,823)	$ (4,672)	$ (10,308)	$ (6,277)	$ (15,[illegible])	$ (16,270)	$ (22,408)
Net income (loss) per common share	$ (6.66)	$ (11.69)	$ (18.56)	$ (.93)	$ (.31)	$ (.71)	$ (.60)	$ (.48)
Weighted average number of shares outstanding	241	241	241	6,871	12,[illegible]	22,[illegible]	26,869	46,534

LIQUIDITY AND CAPITAL RESOURCES

We have required significant capital to fund the construction and installation of our fiber-optic networks within buildings and to purchase electronic equipment for installation in building and metropolitan points of presence. As of December 31, 1999, we had made capital expenditures of $49,795,000 since inception. We expect that our capital expenditures will increase substantially in future periods as we construct our networks and purchase more equipment. We will continue to seek access to additional buildings. If we are successful in gaining access to additional buildings, we will have substantial needs for additional capital for an indefinite period. We also expect to have substantial and increasing operating losses and net losses.

In March 1999, we entered into a credit facility with Chase Manhattan Bank under which we can borrow up to $45,000,000, subject to certain conditions including having less than $12,500,000 cash available at the time of initial borrowing. We have not borrowed against the facility as of December 31, 1999 and currently do not intend to. The facility will accrue interest at one of the following or a combination of the following, at our option: (i) the bank's prime rate plus 3.5%, (ii) a base certificate of deposit rate plus 4.5%, (iii) Federal funds rate plus 4%, or (iv) an Eurodollar rate plus 4.5%. The credit facility is secured by all of our assets, except for the assets pledged in connection with our capital lease obligations. We will pay a commitment fee of 1.5% on the unused portion of the credit facility if we borrow against the facility. The facility, which extends through October 2000, contains various restrictive covenants, including the maintenance of certain financial ratios, the achievement of certain operational targets and restrictions on certain activities.

In August 1999, we issued shares of common and preferred stock to a group of financial sponsors for approximately $17,000,000. Additionally, in August 1999, we issued shares of common and preferred stock to our real estate partners for approximately $34,000,000.

On October 29, 1999, we completed an initial public offering of 16,970,550 shares of our common stock for which we received net proceeds of approximately $285,000,000. We intend to use more than $175,000,000 of the net proceeds from this offering for construction of in-building fiber-optic networks and the remainder for working capital and general corporate purposes, including to fund operating losses. We may also use a portion of the net proceeds to acquire or invest in complementary business, technologies, services or products. However, we currently have no material commitments or agreements with respect to any of these types of transactions.

Simultaneous with our initial public offering our preferred stockholders converted all of their preferred stock for 6,570,000 shares of common stock. Had the conversion of preferred stock occurred at the beginning of each period, net income (loss) per common share would have been $(1.75) and $(1.23) for the years ended December 31, 1998 and 1999, respectively.

As of December 31, 1999, the Company has entered into warrant acquisition agreements for the issuance of 7,004,000 shares of common stock. Performance obligations underlying 6,336,000 shares of common stock had been completed as of December 31, 1999. The value of these shares was $109,135,000. In connection with securing access to additional buildings subsequent to December 31, 1999, the Company entered into warrant agreements to acquire 1,130,000 shares of common stock.

Since December 1999, we have received $65,000,000 in vendor commitments for lease financing, subject to certain conditions. As of December 31, 1999 we have financed approximately $9,169,000 of equipment additions through these lease facilities and have outstanding capital lease obligations of approximately $7,728,000.

As of December 31, 1999, we had committed to pay approximately $4,054,000 to carriers under our existing connectivity contracts.

As of December 31, 1999, we had cash and cash equivalents of $152,564,000 and short-term investments of $162,013,000.

We estimate that the net proceeds received from the initial public offering in addition to our cash on hand will be sufficient to fund our operations and the projected deployment of our network through approximately the middle of 2001. We do, however, expect to continue our growth, expansion and the further development of our network and services beyond that point. Accordingly, we expect that we will eventually need to arrange for additional sources of capital through the issuance of debt or equity or additional bank borrowings. We have no commitments other than those described above for any such additional financing, and we cannot be sure that we will be able to obtain any such additional financing at the times required and on terms and conditions acceptable to us. In such event, our growth could slow and operations could be adversely affected.

The actual amount and timing of our future capital requirements may differ materially from our estimates as a result of many factors. These factors include:

- our ability to meet our construction schedules;
- obtaining favorable prices for purchases of equipment;
- our ability to develop, acquire and integrate the necessary operational support systems;
- the cost of network development in each of our markets;
- demand for our services;
- the nature and penetration of new services that may be offered by us;
- regulatory changes; and
- changes in technology and competitive developments beyond our control.

We also expect that we will require additional financing or require financing sooner than anticipated if our current business plans change, the assumptions underlying those plans are inaccurate, or if we engage in any material acquisitions. Should we require additional capital, we may raise such capital with proceeds from public or private sales of equity and debt securities, credit facilities and other borrowings. There can be no assurance that such financing will be available on a timely basis on terms acceptable to us or at all

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Our exposure to financial market risk, including changes in interest rates and marketable equity security prices, relates primarily to our investment portfolio and to a lesser extent to our outstanding debt obligations. We typically do not attempt to reduce or hedge our market exposure on our investment securities because a substantial majority of our investments are in fixed-rate, short-term securities. We do not have any derivative instruments. The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis increase or decrease in interest rates due mainly to the fixed-rate, short-term nature of the substantial majority of our investment portfolio. In addition, substantially all of our outstanding indebtedness at December 31, 1999, is fixed-rate debt.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

The Consolidated Financial Statements of Allied Riser Communications Corporation are filed under this Item, beginning on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE:

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF ALLIED RISER COMMUNICATIONS CORPORATION:

The information required by this Item 10 is set forth in the Proxy Statement to be delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on June 15, 2000 under the headings "Proposal for Election of Directors" and "Executive Officers," which information is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION:

The information required by this Item 11 is set forth in the Proxy Statement under the heading "Executive Compensation," which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

The information required by this Item 12 is set forth in the Proxy Statement under the heading "Principal Stockholders and Management Ownership," which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

The information required by this Item 13 is set forth in the Proxy Statement under the heading "Certain Transactions" which information is incorporated herein by reference.

EXHIBIT 3

Managerial Qualifications

KEY EMPLOYEES
ALLIED RISER OPERATIONS CORPORATION

David H. Crawford has served as our chief executive officer since July 1998, was elected to our board of directors in July 1998, and from July 1998 to May 1999 also served as our president. From March 1997 until July 1998, Mr. Crawford was senior vice president – administration, general counsel – property operations and assistant secretary at Equity Office Properties Trust. From February 1991 until December 1996, Mr. Crawford held senior vice president, general counsel and other senior management positions at Equity Office Properties and their affiliates and was of counsel to Rosenberg & Liebentritt. Mr. Crawford was an associate at Kirkland & Ellis, a national law firm based in Chicago, Illinois, from June 1988 until February 1991.

John M. Todd has served as our president and chief operating officer since May 1999 and was elected to our board of directors in May 1999. From February 1996 to May 1999, Mr. Todd was vice president – sales support services for Sprint Business and vice president – technology integration for Sprint Business. From February 1986 until February 1996, Mr. Todd held various officer and senior management positions at MCI, including vice president for professional services, product management and marketing.

John H. Davis, Ph.D., has served as our chief technology officer since July 1999 and was elected to our board of directors in December 1998. Since September 1997, Dr. Davis has been a principal of GeoPartners Research. Prior to September 1997 Dr. Davis held senior management positions at Bell Labs and AT&T, culminating in his role as the chief technology officer for AT&T Communications Services from 1993 until September 1997. Dr. Davis presently serves on the board of directors of Acoustics Technologies, a start-up company in Phoenix, Arizona.

Todd C. Doshier has served as our chief financial officer since December 1996 and served as our chief operating officer from December 1996 to May 1999. From May 1991 until December 1996, Mr. Doshier was a principal in Doshier & Co. (later Perry, Nestman & Doshier), which provided corporate consulting, financial advisory and management services.

Michael R. Carper has served as our senior vice president and general counsel since June 1999. From August 1995 to June 1999, Mr. Carper was assistant general counsel and assistant secretary of Nextel Communications. From August 1993 until July 1995, Mr. Carper was vice president – general counsel of OneComm Communications, when it merged with Nextel. Prior to August 1993, Mr. Carper worked for Jones, Day, Reavis and Pogue, an international law firm, in its communications practice area.

Elizabeth Carey Billante has served as our vice president – real estate services since August 1998. Since 1990, Ms. Billante has held senior management positions at Equity Office Properties and Wiggins Properties in the areas of portfolio management and property management.

Thomas A. Blake has served as our vice president – accounting since September 1998. Prior to joining us in November 1997 and since 1974, Mr. Blake founded an independent CPA firm and served as the chief financial officer for four international construction and real estate firms.

James P. Breen has served as our vice president – corporate development since July 1998. Since 1990, Mr. Breen has held officer and senior management positions at Equity Office, Equity Group Investments and Barclays Bank in the areas of finance and investments for the real estate and communications industries.

John R. Bukowsky has served as our vice president – product management since April 1999. Since 1996, Mr. Bukowsky has held officer and senior management positions at Sanga International and GTE in the areas of business strategy, business development, marketing, product development and sales.

Thomas A. Eppes, Ph.D., has served as our vice president – operations since August 1998. Since June 1979, Dr. Eppes has held officer and senior management positions at VT . and Frito Lay in the areas of network design and deployment, process engineering and operations.

J. Ted Gilmore has served as our vice president – sales since November 1998. Since 19 , Mr. Gilmore has held officer and senior management positions at GTE, GTE Communications and GTE Professional Services in the areas of international sales and marketing.

William T. Guthrie has served as our vice president — engineering since July 1998. Prior to joining us in February 1998 and since April 1992, Mr. Guthrie held officer and senior management positions at MCI and US West in the areas of wireless engineering and network systems.

Brenda L. Hardesty has served as our vice president – human resources and administration since March 1999. Prior to joining us in August 1998 and since 1984, Ms. Hardesty held senior management positions at Accugraph Corporation/ Architel Systems in the areas of human resources, customer support and customer services.

John D. Keys has served as our vice president – construction since November 1997. Prior to joining us as a consultant in March 1997 and since 1968, Mr. Keys founded two international electrical construction firms and has served as a senior officer of Blount, Foley Enterprises and Fishbach & Moore.

Douglas J. Morgan has served as our vice president – strategic national initiative since July 1999. Since 1991, Mr. Morgan has held officer and senior management positions at Winstar and Unisys in the areas of enhanced services, sales, business development, marketing, product management, training, strategic initiatives and media relations.

Steve L. Reichert has served as our vice president – information technology since June 1999. Since 1994, Mr. Reichert has held officer and senior management positions at Pagenet and Pro Staff in the areas of business systems development, IT consulting services, customer systems development, network systems development and technical architecture planning.

Charles W. Yeargain has served as our vice president – finance since December 1996. Since 1984, Mr. Yeargain has founded an investment and consulting firm and has held officer positions at AMRESCO Management and Texas American Bank.

EXHIBIT 4

Illustrative Tariff

PROPOSED

TARIFF OF

ALLIED RISER OF ARIZONA, INC.

Regulations and schedule of charges applicable to telecommunications services provided by Allied Riser of Arizona, Inc. between various locations within the State of Arizona.

Todd C. Doshier
Chief Financial Officer
Allied Riser of Arizona, Inc.
1700 Pacific Avenue, Suite 400
Dallas, TX 75204

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Todd C. Doshier
Chief Financial Officer
Allied Riser of Arizona, Inc.
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CHECK SHEET

The pages of this tariff are effective as of the date shown at the bottom of this page.

Page No.	Revision
Title	Original
1-30	Original

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CONCURRING, CONNECTING, OTHER PARTICIPATING CARRIERS

Concurring Carriers

NONE

Connecting Carriers

NONE

Other Participating Carriers

NONE

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EXPLANATION OF SYMBOLS

When changes are made in any tariff sheet, a revised sheet will be issued canceling the tariff sheet affected. Changes will be identified on the revised page(s) through the use of the following symbols.

C - To signify changed regulation

D - To signify discontinued rate or regulation

I - To signify increased rate

M - To signify matter relocated from one page to another without change

N - To signify new rate, regulation, or text

R - To signify reduced rate

S - To signify reissued matter

T - To signify a change in text but no change in rate or regulation

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APPLICATION OF TARIFF

This tariff applies to local telecommunications services furnished by Allied Riser of Arizona, Inc. (Carrier) between various locations within the State of Arizona in accordance with the conditions set forth herein.

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A. DEFINITION OF TERMS

Access Code

A sequence of numbers that, when dialed, connects a caller to an interexchange carrier that is associated with that sequence.

Affiliate

Any entity (including any natural person or entity such as a corporation or partnership) controlling, under the control of or under common control with another entity.

Application for Service

A standard order form which includes all pertinent billing, technical, administrative, and other descriptive information which will enable Carrier to provide telecommunications service to a Customer.

Authorized User

An individual, firm, corporation, or other entity authorized by the Customer to utilize communications services provided by Carrier.

Carrier Recognized Holidays

The following days are recognized as holidays for billing purposes: New Year's Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day, except as otherwise specified herein.

Credit Application

A standard form which is used by Carrier to assess a Customer's credit worthiness prior to Carrier's arranging the installation of any facilities or the provision of any Services to a Customer.

Customer

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An individual, firm, corporation, agency, or other entity which orders service and is responsible for the payment of charges and compliance with the tariff provisions set forth herein.

Dedicated Access Arrangement

An arrangement whereby the facilities used between the Customer's premises and the Carrier point of presence are directly linked. Such arrangements may involve interconnection facilities provided by the Customer, another carrier, or a local access provider.

Interconnection Facilities

Circuits and/or dedicated access arrangements provided by the Customer or a third party supplier to interconnect the Customer with Carrier's service. The Customer shall have sole responsibility for the ordering, installation, maintenance, and payment of such facilities.

Local Access Provider

A local exchange carrier or other entity which furnishes inter-connection facilities between the Customer's premises and Carrier's point of presence in a LATA.

Minimum Service Period

The minimum period of time during which Customer is obligated to pay for services provided by Carrier.

Point of Presence

The Carrier's physical presence in a local calling area or LATA which is used for the purpose of transmitting telephone alls.

Presubscription

A service arrangement whereby the Customer authorizes the local telephone company to route all interLATA calls to Carrier.

Service

Service consists of the furnishing of transmission capabilities to Customers and Authorized Users for the placement and/or receipt of local telephone calls, subject to the availability of the necessary facilities and equipment to provide the transmission and the provisions of this tariff.

Service Date

The date on which Customer begins to utilize the Service or the date on which Service is made available for use by the Customer or its authorized users, whichever is sooner.

Special Promotional Offering

Special discounts and/or other modifications to Carrier's standard service offerings which may be offered, from time to time, to Customers using a particular service. Special promotional offerings may be limited to certain dates, times, and locations.

B. RULES AND REGULATIONS

1 Undertaking Of Carrier

(a) The furnishing of the Service under the terms of this tariff will be provided by Carrier alone, or in conjunction with services of other carriers. Service is available 24 hours per day, 7 days per week for the transmission of interexchange and local telephone calls.

(b) Carrier, when acting at the Customer's request and as its authorized agent, will make reasonable efforts to arrange for presubscription, interconnection, and other service requirements.

(c) Carrier will comply with Minimum Telephone Service Standards. Service will not commence until an approved interconnection agreement has been filed with the Arizona Corporation Commission.

2. Limitations

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(a) Carrier reserves the right to refuse or discontinue furnishing services when necessitated by conditions beyond its control. Such conditions include, but are not limited to, a Customer's having call volume or calling patterns that results, or may result, in network blockage or other service degradation which adversely affects service or other customers of Carrier

(b) Service may be discontinued without notice to a Customer by blocking traffic to certain cities or exchanges or by blocking calls using certain access codes or authorization codes, when Carrier deems it necessary to take such action to prevent unlawful use of its services. Service will be restored as soon as it can be provided without undue risk, and will, upon request by the Customer affected, assign a new authorization code to replace the one that has been deactivated

(c) Carrier does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections

(d) A Customer shall not use any service mark or trademark of Carrier or refer to Carrier in connection with any product, equipment, promotion, or publication of the Customer without the prior written consent and approval of Carrier

(e) The Customer shall not use nor permit others to use the service in a manner that could interfere with services provided to others, that could harm the facilities of Carrier or others, or that is not consistent with any applicable law or regulation.

(f) The provision of service will not create a partnership or joint venture between Carrier and the Customer nor result in joint service offerings to their respective authorized users

(g) Neither the Services provided pursuant to this tariff, nor the Customer's obligations hereunder, may be assigned or otherwise transferred without the prior written consent of Carrier

3. <u>Terms And Conditions</u>

(a) Service is provided on a monthly basis, twenty-four (24) hours per day as described herein. For the purpose of computing charges in this tariff, a month is considered to have thirty (30) days

(b) Customers may order Services under this tariff by contacting an authorized Carrier representative and executing Carrier's Application for Service and, at Carrier's sole discretion, a Credit Application.

(c) Customer shall at all times comply with all applicable federal, state, and local statutes, ordinances, regulations, and orders of any commission or other governmental body. Customer is responsible for taking all the necessary legal steps for interconnecting their terminal equipment or communications systems with Carrier facilities or services and shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection.

(d) Except as otherwise provided in this tariff, Service is provided and billed on the basis of one (1) month, beginning on the Service Date and continuing until the expiration of the Minimum Service Period, or until Service is otherwise cancelled. Customer shall accept and pay for Service for the Minimum Service Period. Upon expiration of the Minimum Service Period, Service shall be automatically extended on a month-to-month basis until Service is terminated in writing by the Customer on not less than thirty (30) day's written notice to Carrier.

(e) The Customer agrees to operate Carrier-provided equipment in accordance with the instructions of Carrier or its authorized agent. Failure to do so will void any Company liability for interruption of service and may cause the Customer to be responsible for damages to equipment pursuant to this tariff.

(f) Customer agrees to return all Carrier-provided equipment to Carrier within five (5) days of termination of service in connection with which the equipment was used. Equipment shall be in the same condition as when delivered to the Customer, normal wear and tear only excepted. Customer shall reimburse Carrier, upon demand, for any costs incurred by Carrier due to Customer's failure to comply with this provision.

(g) Carrier reserves the right of entrance for its employees, agents, or contractors to the premises of the Customer, at any reasonable hour for the purpose of installing, inspecting, repairing, or upon termination of service removing Carrier's equipment. The Customer shall be responsible for making any necessary arrangements for Carrier's entrance to the Customer's premises.

(h) The remedies set forth herein shall not be exclusive and Carrier at all times shall be entitled to all rights available to it under either law or equity.

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(i) Except as otherwise provided herein, or as specified in writing by the party entitled to receive Service, notices from Carrier may be given orally or in writing to the person(s) whose names appear on the executed Application for Service.

4. Liability

(a) Carrier shall not be liable to Customer or any other person, firm, entity, for any failure to perform its obligations under this tariff due to any cause or causes beyond its reasonable control.

(b) CARRIER MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OR MERCHANTABILITY AND FITNESS FOR A PARTICULAR USE, EXCEPT AS EXPRESSLY SET FORTH HEREIN OR IN ANY APPLICABLE SERVICE LEVEL AGREEMENT. Carrier is not liable for any act or omission of the Customer, authorized user, or any other carrier furnishing a portion of the service. Except for Service Credits expressly set forth herein or in any applicable Service Level Agreement, in no event shall Carrier or any of its Affiliates be liable for claim or loss, expense or damage (including indirect, special or consequential damage) for any interruption, delay, error, omission, addition, or defect in any Service, facility or transmission of any person or entity furnishing any portion of the Service, facilities, or equipment associated with the service or for damages caused by services, facilities, or equipment furnished by such person or entity.

(c) Carrier shall be indemnified and held harmless by Customers against any claim or loss, expense or damage (including indirect, special or consequential damage) for defamation, libel, slander, invasion of privacy, infringement of a copyright or patent, unauthorized use of any trademark, trade name or service mark, unfair competition, interference with or misappropriation or violation of any contract, proprietary right, or any other injury to any person, property, or entity arising out of the material, data, information, or other content revealed to, used, or transmitted by Carrier.

(d) Carrier shall not be liable for any defacement of or damages to the premises of a Customer or authorized user resulting from the furnishing of Service which is not the direct result of Carrier's negligence.

(e) Carrier is not liable for any defacement of or damage to the premises of a

Customer resulting from the furnishing of services or the attachment of instruments, apparatus, and associated wiring furnished by Carrier on such Customer's premises or by the installation or removal thereof, when such defacement or damage is not the direct result of Carrier's negligence.

(f) Carrier does not guarantee or make any express warranty with respect to any equipment provided by it where such equipment is used in locations containing an atmosphere which is explosive, prone to fire, dangerous or otherwise unsuitable for such equipment. Customers and authorized users indemnify and hold Carrier harmless from any and all loss, claims, demands, suits or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any party or persons, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, whether owned by the Customer, authorized user, or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of such equipment so used.

(g) In no event shall Carrier be liable to Customer, its customers or any of their Affiliates for any loss, damage, expense (including loss of of profit or revenue or for any incidental, consequential, indirect, punitive or similar or additional damages) incurred or suffered as a result of incorrect or defective trans-missions, or any direct or indirect consequences thereof, while using the Service, performance, non-performance, termination, breach, or other action or inaction, on the part of Carrier, under this tariff, even if Customer advises Carrier of the foreseeability, possibility, likelihood, probability or certainty of such loss or damage.

(h) Customer shall indemnify and hold harmless Carrier, its directors, officers, employees, and agents, successors, and assigns, from all damages, costs, expenses and liabilities, including all attorneys' fees and disbursements, sustained by Carrier in any action commenced by any third party and arising in connection with the Customer's performance of its obligations and duties under this tariff; and the Customer shall indemnify and hold Carrier harmless from and against any and all claims arising from or relating to Carrier's provision of facilities or Service to Customer under this tariff.

(i) Carrier's liability for damages arising out of any additions, omissions, interruptions, delays, mistakes, errors, or defects in the transmission occurring in the course of furnishing the Service or facilities shall in no event exceed an amount that is equivalent to the proportionate charge for the period of service during which the fault in transmission occurs, which amount shall be the Service Credit.

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(j) In no event shall Carrier be liable to Customer, its Customers or any of their affiliates under this tariff for damages to Interconnection Facilities of Customer or a supplier to Customer resulting from the furnishing of Service, including the installation and removal of equipment and associated wiring

(k) In no event shall Carrier be liable to Customer, its customers or any of their Affiliates for any act or omission of any other entity furnishing a portion of the Service, facilities or equipment associated with the Service or for damages caused by services, facilities or equipment furnished by such entity.

(l) Carrier shall be entitled to take, and shall have no liability whatsoever for, any action as deemed necessary or appropriate by Carrier to bring the Service or its practices into conformity with any rules, regulations, orders, decisions, or directives of the Federal Communications Commission or other governmental agency, and Customer shall cooperate fully with Carrier and take all actions as may be requested by Carrier to comply with any such rules, regulations, orders, decisions or directives.

5 Cancellation Of Service By A Customer

(a) A Customer may discontinue service, either in part or in its entirety, upon written notice to Carrier, provided that the Customer has fulfilled all Minimum Service Period obligations.

6. Use Of Service

(a) Carrier's services may not be used for the unlawful or unauthorized provision of telecommunications services.

(b) Service furnished by Carrier may be used for one or more of the following:

(i) for the transmission of communications by the Customer;

(ii) for the transmission of communications by an Authorized User; or

(iii) for the transmission of communications to or from a

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customer of another common carrier, which has subscribed to Carrier's communications services.

(c) The Customer shall not use or permit others to use the Service in a manner that could impede or interfere with the Service provided to others, that could harm the facilities of Carrier or others, or that is inconsistent with any applicable law or regulations.

(d) No person, firm, corporation, agency, Customer, authorized user or other entity shall resell nor permit others to resell Carrier's Service without the prior written consent of Carrier.

7. Payment Arrangements

(a) The Customer is responsible for payment of all charges for services furnished to authorized users. This responsibility is not changed by virtue of any use, misuse, or abuse of the Customer's service or Customer-provided equipment or facilities by third parties, including, without limitation, the Customer's employees or the public.

(b) Customer's bill is payable within 14 days after the date of the postmark on the envelope containing Carrier's bill. Amounts not paid after such date will be considered past due. A late payment charge of one and one-half percent (1.50%) will be applied to charges not paid by their due date. The late payment charge will not be applied to previous late payment charges that have been assessed, but have not been paid, but will apply to the accumulated services for which the customer is in arrears. Late payment charges will be applied without discrimination.

(c) Usage charges are billed after each usage cycle. In the event that Carrier's usage recording system fails or is otherwise unavailable for all or part of any billing period, Carrier, with the aide of the Customer, shall be entitled to make a reasonable estimate of Customer's usage of Service in the period in question for billing purposes.

(d) Non-recurring charges are payable when the service for which they are specified has been ordered. If an entity other than Carrier (e.g., a government entity, another carrier or supplier) imposes charges on the Service or on Carrier in connection with a Service, those costs will also be charged to and paid by the Customer.

(e) All stated charges in this tariff are computed by Carrier exclusive of any federal, state, local, use, excise, gross receipts, sales or privilege taxes, duties, fees or similar

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liabilities. Such taxes, fees, etc. shall be paid by the Customer.

(f) When payment for services is made by check or draft and is returned to Carrier for any reason, including but not limited to insufficient funds, a maximum charge of Twenty Five and No/100 Dollars ($25.00) (unless a lower fee has been prescribed by law in which event a charge equal to such lower fee) may be made by Carrier for each item returned by the banking institution on which it is written. At the option of Carrier, this charge may be waived because of extenuating circumstances (i.e., bank error).

(g) If a check, draft, or other payment instrument remitted by a Customer or Authorized User is dishonored more than once during a twelve (12) month period, Carrier may refuse acceptance of further such payment methods and place the debtor on a cash basis. Under a cash basis, Carrier may require payment in the form of U.S. currency, money orders, or an instrument that is guaranteed or issued by a third party that is acceptable to Carrier.

8. <u>Change In Service Arrangement</u>

(a) When a change in service arrangement involves the use of facilities or services furnished by Carrier, installation charges do not apply to the facilities or services continued in use. The Minimum Service Period for the facilities or services continued in use is determined by the date of the initial acceptance thereof.

9. <u>Restoration Of Service</u>

(a) The use and restoration of service provided in emergency situations shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

10. <u>Inspection</u>

(a) Carrier, or its authorized agents, may, upon reasonable notice, make such tests and inspections as may be necessary to determine that the premises are in compliance with the terms and conditions of this tariff, and with installation, operational, or maintenance specifications of Carrier. Carrier may interrupt the service at any time, without penalty to Carrier, due to a departure from any such requirements.

11. <u>Disconnection of Service Other Than Toll Service</u>

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(a) For purposes of this section, all regulated telephone services provided by Carrier, except toll service (if any), shall be defined as local service.

(b) Carrier may disconnect its customer's local service for nonpayment of charges incurred for local service. Such disconnection must be conducted pursuant to all applicable minimum telephone service standards. All practices of Carrier, pertaining either to the provision of its own toll service, if any, or as a duly-authorized agent for another toll service provider shall also conform to the minimum telephone service standards.

(c) Carrier is prohibited from disconnecting any customer's local service for nonpayment of charges incurred by the customer for toll service.

(d) Partial payments by a customer to Carrier will be apportioned by Carrier to Carrier's regulated local service charges first before being applied by Carrier to any toll charges and will be apportioned to regulated telephone service charges first before being applied to charges for nonregulated services.

12. Testing And Adjustments

(a) Upon reasonable notice, the facilities, equipment, and/or services provided by Carrier shall be made available to Carrier for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance will be granted for the time during which such tests and adjustments are made.

13 Interconnection With Other Carriers

(a) Service furnished by Carrier may be connected with services or facilities of another participating carrier or a Authorized User. Such interconnection may be made at a Carrier terminal or entrance facility, at a terminal of another carrier, or at the premises of a Customer or a Authorized User. Service furnished by Carrier is not part of a joint undertaking with such other carriers.

(b) Any special interface equipment or facilities necessary to achieve compatibility between the facilities of Carrier and other carriers shall be provided at the Customer's expense. Upon written request and acting as his authorized agent, Carrier will use its best efforts to make the necessary arrangements for such interconnection.

(c) Service furnished by Carrier may be interconnected with the facilities or services of another carrier under the terms and conditions of tariffs applicable to such connections.

(d) Carrier may order interconnection facilities and/or initiate the presubscription process on behalf of a Customer if the Customer furnishes Carrier with a letter of agency. The Customer's use of such interconnection facilities shall conform to the regulations, terms, and conditions under which the carrier provides such access. The Customer shall bear the ultimate responsibility for all aspects of the local interconnection facility including, but not limited to, ordering, testing, installation, maintenance, use, and payment of such facilities.

C. SERVICE DESCRIPTIONS

1. General Description Of Service

(a) The Service enables Customers to place local telephone calls within the State of Arizona.

(b) Service is provided on a full-time monthly basis and is available in locations subject to the availability of facilities and/or equipment. Carrier reserves the right to refuse to provide Service where facilities or equipment are not available or economically feasible.

(c) Total monthly charges for use of Carrier's facilities are based upon the total time the Customer utilizes such facilities, unless otherwise specified herein. Intercity usage charges, as well as other charges, discounts, and/or features, are applicable to each individual service option.

(d) Rates and charges for Service vary depending upon the option selected by the Customer. Certain Service offerings may involve one or more of the following: a monthly recurring charge, a minimum monthly charge for usage, charges for installation, special features, and/or charges for administrative or physical changes to a Service. At additional cost, certain Service options offer a Customer the ability to identify individual users and allocate the cost of the Service through the use of accounting codes.

(e) Nothing herein, or in any other provision of this tariff, or in any marketing materials issued by Carrier shall give any person, including existing and prospective Customers, or their transferees or assignees, any ownership interest or proprietary right in any given telephone number.

2. Description of Charges

(a) Usage Charges

Usage charges vary depending upon a combination of factors including: the time of day a call is placed, the distance between the calling and the called parties, and the duration of the call. Calls beginning in one rate period and ending in another will be billed at the rate applicable to each portion of the call.

Chargeable time begins when Carrier receives signaling to detect that the network connection between the calling party and the called party has been established. Chargeable time ends when either party "hangs up" thereby releasing the network connection. Unless otherwise specified, calls are measured and billed for an initial period of thirty (30) seconds and timed in six (6) second increments for usage over thirty (30) seconds; fractional minutes of use are rounded up to the next six (6) second increment.

(b) Monthly Recurring Charges

Monthly recurring charges are fixed fees applicable to certain service offerings set forth herein. Such charges vary depending upon the physical requirements of the Customer, and the characteristics of the service arrangement utilized by the Customer. Monthly recurring charges for dedicated access arrangements may include an amount charged by a local access provider. Customers may elect to be billed directly for local access facilities.

(c) Volume Discounts

Customers whose total monthly usage equals or exceed a minimum level may be eligible for a volume discount. The amount of the discount is generally based upon the Customer's total monthly usage charges for all services. The Customer's Minimum Service Period may also affect the amount of the discount. Volume discounts are not applicable to monthly recurring charges, installation charges, fees for special features and functions, administrative or physical change charges, or minimum monthly usage charges.

(d) Term Discounts

Customers whose Minimum Service Period equals or exceed one month may be eligible for discounted rates as described herein. The Customer's Minimum Monthly Usage charge and traffic volume may affect the amount of the discount. Volume discounts are not applicable to monthly recurring charges, installation charges, fees for special features and functions, administrative or physical change charges, or minimum monthly usage charges.

(e) Monthly Usage Commitment and Minimum Monthly Usage Charges

Customers may be required to commit to a level of usage in order to receive discounted rates and charges, referred to as Monthly Usage Commitment. In such instances, the customer is billed a Minimum Monthly Usage Charge for the service. This amount of this charge varies depending upon the option selected by the Customer. Unless otherwise specified, minimum usage charges are billed in advance and are not subject to volume or time-of-day discounts.

(f) Installation Charges

Installation charges are applicable to certain service options requiring the physical connection of lines, ports, equipment, or other facilities. Such charges may also be assessed for changes in the service arrangement for the addition or adjustment to lines, ports, equipment, or other facility necessary to provide the service required by the Customer.

3. Service Promotions

(a) Carrier may from time to time engage in special promotions of limited duration of its service offerings designed to attract new customers or to increase existing customer awareness of a particular tariff offering. Waiver of any charges other than a nonrecurring charge shall be limited to 90 calendar days on a per customer basis during a 12-month period.

D. SERVICE OFFERINGS AND RATES

The following section sets forth the rates and charges for telecommunications services provided by Carrier.

1. DS-1 Service

DS-1 Service allows Customers to utilize Carrier's high capacity 1.544 Mbps circuits capable of transmitting multiple streams of information (subject to capacity limitations).

	Rate Per Month
DS-1 (month to month)	$536 per termination
Mileage Charge (fixed)	$84.00

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Mileage Charge (per mile)	$50.00
Installation fee per circuit (one time)	$1800.00

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